

Leveraged Recapitalization

Spectrum Associates, Inc.

The Client: Spectrum Associates was founded in 1985 and is today the premier vendor of client/server MRPII systems to middle market manufacturers. Company sales have increased 40% per year to \$38MM in 1995. Pre-tax profits have averaged 23%.

Sequoia's Challenge: The founders of Spectrum wanted financial security for their families, without risk. They didn't want to sell their entire 92% interest because the company was just now catching the client/server wave. Furthermore, they did not want to take the Company public themselves because of the rigors of operating a company in the public market. They also wanted to avoid waiting 2 years post-IPO to take significant dollars home. Sequoia was chartered to find majority investors that would leave the Company independent, install new management and take the company public under the Spectrum name. The founders were particularly sensitive to the investors being "world class" companies.

Results: Sequoia put together an investment group including *Goldman Sachs, TA Associates and Greylock* that engineered a leveraged recapitalization of Spectrum. The founders took \$40 million off the table immediately. Old shareholders retained 34% of the equity. New investors purchased control, installed a Wall Street savvy CEO, financed the deal with a combination of equity, subordinated debt and bank debt, service on which will be paid for out of company cash flow.

Expectations are a '96 IPO which will repay all debt and value the Company in the aftermarket at a significant multiple of the price paid. Founders win big, twice. Investors win big on a modest net investment after debt repayment.

"We thought so highly of Sequoia after they represented Minx when we acquired that Company, that we asked them to help us develop a solution to our complex needs. They executed flawlessly in less than six months, start to finish."

John Nugent, Tony Baudanza
Co-CEOs
Spectrum Associates, Inc.